

**2008-09 REVISED FINANCING PLAN**

On March 18, 2008, the Board of Supervisors approved the county's original 2008-09 financing plan. The approved agenda item and power point presentation related to the original financing plan is attached for your information.

Subsequent to the approval of the financing plan, the County Administrative Office has received additional information, which has significantly impacted general fund financing available. Below is the summary of how this new information has impacted the original financing plan. A detailed explanation of this change is described below.

**UNRESTRICTED - REMAINING AVAILABLE FUNDING FOR 2008-09**

	General Fund	
	Ongoing	One-time
Proposed Budget Financing - March 18, 2008	15.3	17.1
<b>Adjustments to Financing Plan:</b>		
Change Property Tax Revenue from 6% AV to 3% AV Growth	(12.0)	
Change Mandated Contingency due to reduced revenue		0.1
Change Mandated Reserve due to reduced revenue		1.2
Subtotal:	(12.0)	1.3
Financing Available in Proposed Budget	3.3	18.4

**Adjustments to Financing Available****Property Tax Revenue Reduction Impact**

The County Administrative Office, in conjunction with the Assessor's Office, has reevaluated the projected property tax revenue growth due to the current housing situation. There continues to be a slow down in new construction, a reduction in sales activity, and an increase in foreclosures. Additionally, Proposition 8 reviews have increased. Proposition 8 requires the Assessor's Office to use the lower of the Proposition 13 factored base value or the current market value on the January 1, 2008 assessment lien date when building the 2008-09 assessment roll. All of these situations will negatively impact the upcoming 2008-09 assessment roll. The current estimate for assessed valuation growth at this time is between 2% to 4%. Therefore, the County Administrative Office revised the financing plan accordingly. The original financing plan was built on a 6% assessed valuation growth. The revised financing plan is estimating a 3% assessed valuation growth which results in a \$12.0 million reduction in ongoing financing available.

Furthermore, the reduced revenue impacts the amount required in contingencies and reserves per county policy. This ongoing revenue reduction is offset by an increase of \$1.3 million in one-time financing available.

**Summary of Unrestricted – Remaining Available Funding for 2008-09**

After incorporating the above impacts, the revised financing plan is projected to have ongoing revenues of \$3.3 million and one-time revenues of \$18.4 million.

While these unallocated and unrestricted discretionary revenues are available to the Board of Supervisors, the County Administrative Office strongly recommends that careful consideration be given to the use of these funds. Due to the continued downward revisions to property tax revenues, financing additional ongoing costs are becoming increasingly difficult. Increasing ongoing costs related to MOU negotiations and possible increases to existing or new programs will be difficult without incorporating reductions to the services offered by the county. Further compounding the availability of ongoing financing is the unknown state and federal budget impacts that could severely impact the financial outlook of the county.

Available one-time funds have historically been used to finance one-time costs. While the budget financing policy states that one-time funds shall not be used to finance ongoing operations, the policy does provide for an exception. That exception is the use of one-time funds used in the context of a larger plan to balance ongoing revenues and costs over a multi-year period. Because of the continued uncertainty, the County Administrative Office strongly recommends a cautious approach to the use of these one-time funds in order to forestall any unexpected impacts from external events such as continued shortfalls in projected revenues due to downward adjustments in the general economy or additional reductions due to the state budget situation. Although many of the building needs and many of the requests for additional general fund financing are one-time in nature, the County Administrative Office recommends delaying the approval of one-time allocations until the ongoing impacts facing the county can be remedied.



**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS  
OF SAN BERNARDINO COUNTY, CALIFORNIA  
AND RECORD OF ACTION**

**54**

**March 18, 2008**

*Continued from Tuesday, March 11, 2008, Item #59*

**FROM:** MARK UFFER, County Administrative Officer  
County Administrative Office

**SUBJECT: POLICY DIRECTION ON 2008-09 BUDGET TARGETS**

**RECOMMENDATIONS:**

1. Receive and review the financing and policy issues identified in this report, including the spending and revenue projections used to develop the 2008-09 proposed budget financing plan, and the County Administrative Officer recommendations in developing budget targets.
2. Direct the County Administrative Officer to build departmental budget targets for the 2008-09 proposed budget based on the data and conclusions in this report, as modified by further Board action.

**BACKGROUND INFORMATION:** This report is the initial step towards development of the 2008-09 final budget. This report is used as the basis for the development of budget targets to be issued to county departments. It describes how the county is financing the 2008-09 budget targets and how much available financing remains to address other issues such as pending MOU negotiations, other county needs and the potential negative impacts of the State and Federal budget to the county that are currently not built into the financing plan.

Components of the financing plan included in this report are:

- Analysis of the 2008-09 financing plan:
  - 1) Financing Available for 2008-09
  - 2) Cost to Maintain Current Services in 2008-09
- Issues not addressed in the 2008-09 financing plan
- State and Federal Budget Outlook
- Review of county financing policies, county reserves and ongoing set asides
- Conclusion

**ANALYSIS OF THE 2008-09 FINANCING PLAN**

Projections for additional financing available for next year's budget include \$26.5 million in ongoing funding sources and includes \$29.8 million in one-time sources as summarized on the chart below:

**FINANCING AVAILABLE FOR 2008-09**

	(In Millions)	
	Ongoing	One-time
Beginning Financial Position	\$ 2.3	
New Ongoing Discretionary Sources	37.2	
Adjusted Ongoing Prop 172 Sources	(13.0)	
Estimated One-time Discretionary Sources		\$ 29.8
<b>Total Financing Available</b>	<b>\$ 26.5</b>	<b>\$ 29.8</b>

**Page 1 of 12**

Record of Action of the Board of Supervisors

**54**





**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 2 OF 12**

**54****BEGINNING FINANCIAL POSITION**

When the 2007-08 budget was adopted as final on June 26, 2007, the remaining ongoing funds available were \$3.0 million. In the current fiscal year \$0.7 million has been approved to be spent on Nurses MOU and additional staffing for Jessica's Law. The remaining available money of \$2.3 million, which still may be used in the current fiscal year, serves as the County's beginning financial position for 2008-09 financial planning purposes.

**NEW ONGOING DISCRETIONARY SOURCES**

New ongoing discretionary sources are outlined in the chart below. The growth in discretionary countywide revenues is estimated to be \$37.2 million and is based on the following.

	(In Millions) Ongoing
Property Related Revenue	\$ 33.6
Property Tax Administration	4.0
COWCAP	2.8
Interest	2.0
Sales and Other Taxes	1.1
Recording Fees	(3.4)
Other	(2.9)
<b>Total New Ongoing Discretionary Sources \$ 37.2</b>	

Property Related Revenue is expected to increase by a total of \$33.6 million over the current year budget. This is based on an estimated assessed valuation growth of 6%. This amount includes a reduction of Property Transfer Tax revenues which is expected to decrease by \$6.5 million over the current year budget due to the slowdown in home sales.

Property Tax Administration revenue is expected to increase \$4.0 million from the 2007-08 budgeted amount. This amount is only \$0.5 million higher than current year end estimates based on increased costs in 2008-09.

COWCAP revenue will increase by \$2.8 million over current year budget based on billing amounts published by the Auditor/Controller-Recorder.

Interest Revenue is expected to increase by \$2.0 million from the 2007-08 budgeted amount. This estimated amount is flat to current year interest projections based on the uncertainty of the economy next fiscal year.

Sales and Other Taxes are expected to grow by \$1.1 million due primarily to small increases in Sales Tax and Hotel/Motel taxes and a 5.24% increase in Franchise fees over the 2007-08 budgeted amount.

Recording Fees are expected to decrease by \$3.4 million over the current year budget due to the slow down in the housing market.

Other Revenues are expected to decrease by \$2.9 million due to the implementation of AB 1805 which replaces booking fees with a state allocation to a Local Detention Facility Revenue Account which is then allocated directly to the Sheriff's Department.

**54**

**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 3 OF 12**

**54**

**ONGOING PROP 172 SOURCES ADJUSTMENT**

Proposition 172 (Prop 172), which became effective January 1, 1994, created a permanent half-cent sales tax to provide funding resources to qualifying public safety services. Prop 172 revenue received by the county is allocated per a formula determined by the Board of Supervisors. The current allocations are as follows: 70% Sheriff, 17.5% District Attorney, and 12.5% Probation. Each year Prop 172 is forecasted for the subsequent year using current year receipts, which has a two-month lag, and local economist predictions. Forecasted amounts are included in the applicable departmental budgets.

In 2007-08, the total amount of Prop 172 sales tax expected to be received is \$17.5 million below budget due to the steep decline in real estate activity and higher oil prices. Estimated growth of 3.0% in 2008-09 from the current 2007-08 projection translates into a net reduction of \$13.0 million for the three departments mentioned above.

**ESTIMATED ADDITIONAL ONE-TIME SOURCES**

The chart below summarizes estimated additional one-time sources, totaling \$29.8 million, which will be available for the 2008-09 budget.

	(In Millions) One-time
Mandated Contingencies Per County Policy	\$ 8.6
Available Contingencies in 2007-08	4.0
Departmental Operation Savings in 2007-08	11.2
Prop 172 Impact in 2007-08	(17.5)
Additional Property Tax and Other Revenue in 2007-08	23.5
<b>Estimated One-Time Sources Available for 2008-09</b>	<b>\$ 29.8</b>

Analysis of the 2007-08 contingencies budget results in projections that the 1.5% contingency set-aside required by County policy of \$8.6 million will remain unspent at the end of the fiscal year as well as the current balance of the 2007-08 available contingencies of \$4.0 million.

Estimated departmental operation savings in 2007-08 of \$11.2 million will also be available for one-time expenses in 2008-09. These savings are based on the most recent departmental year end estimates which are updated monthly.

As mentioned above Prop 172 revenue will be coming in below budget by \$17.5 million in the current fiscal year.

In addition, there are a variety of countywide discretionary revenue sources that are expected to exceed modified budget in 2007-08. Those sources are specifically property tax, supplemental property tax, unclaimed property tax refunds, and interest revenue. This unexpected increase in revenue totaling \$23.5 million is available for one-time expenses in 2008-09.

**54**





**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 4 OF 12**

**54**

**COST TO MAINTAIN CURRENT SERVICES IN 2008-09**

The prior section of this report addressed the financing available for 2008-09. This section will address increased costs in 2008-09 to maintain current services. The chart below summarizes the adjustments to prior year's budget that are included in the financing plan for both ongoing and one-time costs. Following the chart is a brief description of each cost component.

	(In Millions)
Approved MOU Increases (Safety and Nurses Only)	\$ 6.4
County Staffing Needs for 1.5 New Judgeships in 2007-08	1.9
Retirement Increases	1.2
Central Computer	0.8
Utilities	0.5
California Children's Services	0.4
Dental Care for Inmates	0.2
Human Resources Rate Adjustments	<u>(0.2)</u>
<b>Ongoing Costs Subtotal</b>	<b>\$ 11.2</b>
Registrar of Voters	\$ 1.3
Contribution to Moonridge Zoo Reserve	1.0
Contribution to Contingencies per County Policy	6.7
Contribution to General Purpose Reserve per County Policy	<u>3.7</u>
<b>One-Time Costs Subtotal</b>	<b>\$ 12.7</b>
<b>Total Increased Costs</b>	<b>\$ 23.9</b>

**APPROVED MOU INCREASES - \$6.4 MILLION**

The safety unit and the safety management and supervisory unit are in their last year of their respective agreements that end in February 2009. The nurses unit and the nurse per diem unit are in their first year of their respective agreements that end in December 2010. The net local cost associated with these negotiated salary and benefit adjustments is \$6.4 million in 2008-09.

Discussions between the County, exempt personnel, and the following representations units: general, attorney, specialized peace officers, and specialized peace officers – supervisory are currently in process. Since there are currently no approved agreements for 2008-09, no MOU increases were factored in the costs to maintain current services for 2008-09 at this time.

**COUNTY STAFFING NEEDS FOR 1.5 NEW JUDGESHIPS IN 2007-08 - \$1.9 MILLION**

Cost for judgeships is based on 1.5 new judgeships filled for criminal courtrooms in 2007-08 which require additional county staff. Costs are based on full year funding and would add the following positions and associated costs to the departments listed: District Attorney, 6.0 positions at a cost of \$0.9 million; Public Defender, 4.0 positions at a cost of \$0.7 million; and Probation, 3.0 positions at a cost of \$0.3 million.

**RETIREMENT INCREASES - \$1.2 MILLION**

Employer retirement contribution rates are comprised of two rates, which are stated as a percentage of earnable compensation: the rate set actuarially by the San Bernardino County Employees Retirement Association (SBCERA) and the rate set by the County to cover payment of the existing pension obligation bonds (POBs). In 2008-09, the SBCERA rate for general employees decreases .36% and the POB rate increases .30% for a net decrease of .06%. The SBCERA rate for safety employees increases .06% and the POB rate increases .20% for a net increase of .26%. As a consequence of these rate changes and the increases in earnable comp as a result of the approved MOUs, retirement costs will increase \$1.2 million. It should be noted that when the remaining MOUs agreements are finalized, retirement costs will increase as a factor of cost of living increases.

**54**

**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 5 OF 12**

**54****CENTRAL COMPUTER - \$0.8 MILLION**

Information Services Department is proposing a 1% increase in computer operations rates (2410). The proposed rates are included on a separate March 11, 2008, board agenda item. The increase is needed to maintain current service levels and finance required program enhancements and purchases of fixed assets and equipment to meet projected service demands. The rate increase does not provide for an increase in working capital. The financing plan incorporates the increase in local cost of \$0.8 million resulting from proposed rate increases.

**UTILITIES - \$0.5 MILLION**

Included in the 2008-09 financing plan is approximately \$0.5 million general fund financing increase to the Utilities budget due to projected utility rate increases.

**CALIFORNIA CHILDREN'S SERVICES - \$0.4 MILLION**

California Children's Services is a state program that provides case management, diagnosis, and treatment services to individuals up to 21 years of age with severe qualifying medical conditions and whose families are unable to pay for all or part of their care. State law requires the County to maintain a mandated minimum funding level. As a result, an increase of \$0.4 million is required in 2008-09 to maintain the mandated caseload ratio as well as Healthy Families payments funding level.

**DENTAL CARE FOR INMATES - \$0.2 MILLION**

California Code requires that emergency and medically required dental care is provided to each inmate, upon request, under the direction and supervision of a dentist, licensed in the state. As a result, the Sheriff's Department needs additional general fund financing of \$0.2 million to hire another part-time dentist as well as pay for the existing dentists' salary adjustments. The Sheriff's Department will bring forth a separate board agenda item on March 18, 2008 to authorize these adjustments.

**HUMAN RESOURCES RATE ADJUSTMENTS - \$0.2 MILLION SAVINGS**

The proposed 2008-09 Human Resources rate adjustments are included on a separate March 11, 2008, board agenda item. Due to departmental re-organization, an increase in fees, and additional revenue from the opening of the Center for Employee Health and Wellness in Victorville, the financing plan incorporates a reduction in general fund financing of \$0.2 million.

**REGISTRAR OF VOTERS - \$1.3 MILLION**

Registrar of Voters will be transitioning from a 3 major election cycle in 2007-08 to a one major election in 2008-09 (Presidential), and requires an increase of \$1,325,000 in local cost based on the following factors: 1) anticipated high voter turnout, 2) switch back to paper versus electronic voting due to the Secretary of State's decertification of electronic voting systems, 3) two card ballot required versus the typical one card ballot, and 4) estimated only 38% reimbursable costs from participating cities/districts since County will incur the majority of cost of the November 2008 Presidential Election.

**CONTRIBUTION TO MOONRIDGE ZOO RESERVE - \$1.0 MILLION**

On June 6, 2006 the Board of Supervisors approved contributing \$1.0 million a year to assist in relocating the Moonridge Zoo.

**CONTRIBUTIONS PER COUNTY POLICY- \$6.7 MILLION/\$3.7 MILLION**

These funding recommendations are based on established County policy discussed later in this agenda item.

**54**



**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 6 OF 12**

**54**

**ISSUES NOT ADDRESSED IN THE 2008-09 FINANCING PLAN**

In developing the financing plan, \$23.9 million of the financing available for 2008-09 has been allocated to maintain current services. The remaining financing available may be utilized to address needs that are not funded in the financing plan, such as MOUs currently in negotiations, the county needs listed below, and the potential State and Federal budget negative impacts to the county referenced in the following section.

**MOUS IN NEGOTIATIONS**

As mentioned earlier, the County is in negotiations with all but two of the representative labor units. Once agreements are approved, financing will be required to assist departments with any increase in salaries and benefit costs.

**COUNTY NEEDS**

As mentioned in previous years, the County's needs and responsibilities to its constituents continue to increase as a result of population growth. This continued growth obligates the County to develop plans for areas affected by growth, such as new facilities, existing facilities and equipment, staffing and programs. In addition, two areas of concern not affected by growth are also highlighted.

New Facilities

The county continues to explore various alternatives to meet its growing office space requirements and to address its aging buildings and infrastructure. Various sites for new facilities have been under consideration, both in the San Bernardino and High Desert areas. The Board is also considering different types of government center settings both in urban and more rural locations. These centers include a combination of low, mid, and high-rise building concepts in various campus settings. While steps have been taken to secure funding via establishing reserves, these reserves need to be significant enough to accommodate changes in growth/expansion as well as changes in the economy that drive the costs of new facilities.

Existing Facilities and Equipment

In addition to the need for new or expanded County facilities, existing County-owned facilities and equipment also must receive preventative maintenance, repair and/or replacement. While the County has made significant strides in allocating funds to the capital improvement program (CIP) there continues to be a concern for changes resulting from increased costs for goods and services. Consequently, this area is one that must be continually monitored as the economy plays a significant role in the maintenance and repair of facilities and equipment.

One major area of need that continues to be of concern due to the significant costs involved for replacement is the County's 800 MHz radio infrastructure completed in 1989. This infrastructure system serves the communication needs of the County-governed programs, including public safety agencies of law enforcement and fire, emergency medical services and general governmental functions. This system needs to be upgraded in order to maintain this required communication service. The original equipment was purchased with a 1985 bond issue and augmented with a subsequent 1988 bond issue.

Staffing and Programs

The growth in the county not only affects the need for additional facilities and equipment, but it also impacts the need for additional departmental staffing and programs. The area of maintaining and expanding staffing and programs in various county departments continues to exist and county departments have again submitted numerous policy items for consideration with their proposed budgets.

**54**



**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 7 OF 12**

**54**Termination Benefits

The County Administrative Office has been monitoring termination benefit costs over the past several years. Based on actual activity there is a potential of significant one-time costs that a department would be impacted by as a result of retirement of several of the county's senior, high-level employees. Some county departments are simply unable to bear the burden of these unavoidable costs and may require additional general fund financing as these situations occur.

Potential Litigation

Although the County has taken the appropriate steps and measures to minimize exposure to litigation; and the county has strengthened its self-insurance funds to protect county assets and resources, there is still the vulnerability of unfunded potential litigation.

**STATE AND FEDERAL BUDGET OUTLOOK**

Recognizing that the state and federal budget process is in its early stages, San Bernardino County's preliminary financing plan for 2008-09 assumes no state or federal budget impacts until such time as the state and federal budgets are formally adopted. However, an evaluation of those potential impacts is elaborated on in the following section.

**STATE BUDGET IMPACT**

On January 10, 2008, the Governor's Proposed Budget for 2008-09 was announced. The County Administrative Office enlisted departments' assistance in identifying specific budget impacts. If the January 10th budget submitted by the governor is adopted, the fiscal impact to the County of San Bernardino is described below.

Key state budget issues of interest to counties include:

- **Human Services Reductions:** There is a possible reduction of \$19.1 million to the County primarily due to the proposed State's 10% Across the Board Reduction to Medi-Cal, Children's Services, Adult Protective Services, and In-Home Supportive Services programs. This dollar amount is equivalent to 266 full-time positions. However, attrition remains high in the human services departments, so layoffs would not be a certainty. Although the state funding is proposed to be cut, the counties are still required to provide the same level of service.
- **ARMC Reductions:** ARMC faces a possible \$3.3 million reduction due to the State's 10% Across the Board Reduction and the proposed shifting of federal Safety Net Care Pool payments away from public hospitals to other programs currently funded by the State.
- **Public Health Reductions:** Public Health faces a possible \$2.0 million reduction due to the State's reduction in Medi-Cal provider rates and Healthy Families Program reimbursement rates. With this state funding cut, the department will not be able to provide the current level of service. In addition, the California Children Services program may realize a \$1.4 million increase in county costs as a result of the proposed quarterly reports for Medi-Cal eligibility and the 5% reduction in the Healthy Families program. These reductions are in addition to the mandated costs financed earlier for California Children's Services.
- **Behavioral Health Reductions:** Behavioral Health has a possible \$4.0 million reduction due to the State's 10% Across the Board Reduction in Medi-Cal, Managed Care, Substance Abuse Offender Treatment (Prop 36), Mentally Ill Offender Crime Reduction, Early and Periodic Screening, Diagnosis, and Treatment (EPDST), CalWORKS and Drug Court Partnership programs. With this state funding cut, the department will not be able to provide the current level of service.

**54**

**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 8 OF 12**

54

- **Public Safety Reductions:** Probation has a possible \$3.0 million reduction due to the State's 10% Across the Board Reduction in Juvenile Justice Crime Prevention, Substance Abuse Offender Treatment (Prop 36), Foster Care, Mentally Ill Offender Crime Reduction, and other programs. Sheriff has a possible \$400,000 reduction in local assistance grants. District Attorney has a possible \$400,000 reduction in state grants/aid.
- **Other Reductions:** County Library has a possible \$100,000 reduction in state aid.

**FEDERAL BUDGET IMPACT**

President Bush released his 2008-09 proposed budget of \$3.1 trillion on February 4, 2008. In order to help balance the budget by 2012, the proposal includes \$200.9 billion in cuts to Medicare (\$182.7 billion) and Medicaid (\$18.2 billion) over five years. It also includes eliminating or reducing funding for 151 discretionary programs, many of which are key local priorities. The County Administrative Office, with the assistance of affected departments, has attempted to identify specific federal budget impacts to the County of San Bernardino.

Key federal budget issues of interest to counties include:

- **Medicare and Medicaid:** The California Hospital Association (CHA) has performed a financial analysis for California public hospitals and has indicated that the President's proposed budget will impact ARMC by \$2.6 million in 2008-09. Additionally, analysis was provided for a 5 year forecast of these proposals and ARMC would be impacted by \$29.0 million.
- **Community Development Block Grants (CDBG):** Grants given to local governments to promote community and economic development would be cut from \$3.9 billion in 2007-08 to \$3.0 billion in 2008-09, a 22 percent reduction. For San Bernardino County, this is a \$1.6 million reduction.
- **Law Enforcement:** Once again, the Administration is proposing to slash local law enforcement partnership programs. This year, the proposed cut would be 57 percent, from \$2.0 billion to \$0.9 billion. The Administration is requesting zero funding for the COPS community policing program, the Byrne/Justice Assistance Grant program, and the State Criminal Alien Assistance Program (SCAAP). In addition, there would be major cuts in Juvenile Justice programs. The Sheriff's Department could lose approximately \$3.0 million if the COPS community policing program is eliminated. This funding would be used to purchase Operation Clean Sweep security equipment provided to participating schools and to purchase 350 additional mobile ID devices plus maintenance and wireless communication devices. The Sheriff's Department and District Attorney's Office could lose approximately \$0.7 million and \$0.3 million, respectively if the Byrne/Justice Assistance Grant program is eliminated. This funding is used for street enforcement and crime lab activities. If SCAAP reimbursements are not made, the Sheriff's department would lose approximately \$0.6 million annually. Probation will see a cut in Juvenile Justice programs at a cost of \$1.5 million.
- **Homeland Security/First Responder Programs:** Funding for key state and local homeland security programs would be cut 47 percent, down from \$4.0 billion to \$2.1 billion. For San Bernardino County, this would result in a cut of approximately \$1.2 million in emergency equipment purchases as well as funding for a Terrorism Liaison Officer in the Sheriff's Department and \$0.4 million for the Public Health Department's Preparedness and Response Program.
- **Community Services Block Grant (CSBG):** Once again, the administration is proposing termination of the \$0.7 billion CSBG program. The CSBG program provides States and Indian Tribes with funds to lessen poverty in communities. The funds provide a range of services and activities to assist the needs of low-income individuals including the homeless, migrants and the elderly. For San Bernardino County, this would result in a reduction of \$0.3 million in Adult Protective Services funds.



54



**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 9 OF 12**

**54**

- **Title XX Social Services Block Grant (SSBG):** This is a federal program which is a pass through to the County from the state for an array of mandated social services programs. These programs include Child Welfare Services (CWS), Community Care Licensing, and Stage 1 Child Care which are administered by the County's Department of Children's Services and Transitional Assistance Department. Proposed statewide funding reduction of \$60.5 million would result in a County reduction of \$420,000 in CWS Administration and \$750,000 in Stage 1 Child Care funding.

County Administrative Office staff will continue to monitor the state and federal budgetary process.

**COUNTY FINANCING POLICIES**

The county has adopted a formal budget financing policy and a reserve and contingency policy. The key elements of these policies which are building blocks for the financing plan are described below:

**BUDGET FINANCING POLICY**

- One-time funds will not be used to finance ongoing operational costs, except within the context of a larger plan to balance ongoing revenues and costs over a multi-year period.
- No less than one-third of one-time sources will be allocated to increasing reserves to the 10% target level as defined in the County's Reserve and Contingency Policy.
- Ongoing set-asides unspent at the end of the fiscal year shall be transferred into a corresponding general fund reserve account as of June 30.

**RESERVE AND CONTINGENCY POLICY**

- The county shall establish an ongoing general purpose reserve for the general fund targeted at 10% of locally funded appropriation.
- The county will maintain an appropriated contingency for the general fund to accommodate unanticipated operational changes, legislative impacts, or other economic events affecting the county's operations, which could not have been reasonably anticipated at the time the budget was prepared. The contingency shall be targeted at no less than 1.5% of locally funded appropriation.
- The county will maintain an appropriated contingency for Prop 172, Realignment and Master Settlement Agreement funds to accommodate unanticipated operational changes, legislative impacts, or other economic events affecting these restricted financing streams, which could not have been reasonably anticipated at the time the budget was prepared. The contingency shall be targeted at no less than 10% of current year budgeted revenues.
- The county will fund specific project reserves for large departmental projects approved by the Board of Supervisors through the use of the respective department's local cost savings.

Locally funded appropriation is defined as those appropriation which are funded by discretionary, unrestricted property tax, sales tax, interest income, and other revenues not linked to specific programs.

For 2008-09, the locally funded appropriation is projected to be \$609.3 million. A general purpose reserve requirement of 10% would be \$60.9 million and an appropriated contingency of 1.5% would require \$9.1 million. The financing plan recommends a contribution of \$6.7 million to mandated contingency and \$3.7 million to the general purpose reserve to satisfy the requirements of these policies.

**54**



**BOARD OF SUPERVISORS**  
**POLICY DIRECTION ON 2008-09 BUDGET TARGETS**  
**MARCH 18, 2008**  
**PAGE 10 OF 12**

**54****COUNTY RESERVES**

The County has a long established conservative approach to budgeting; because of this approach the County has several types of reserves. Some reserves are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general purpose reserve are funds held to protect the County from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county. All of these reserves are one-time in nature and can only be used as a temporary fix. They are not viewed by staff as appropriate remedies for ongoing problems.

A listing of those reserves and the planned contributions are shown below:

	<b>Estimated June 30, 2008 Balance</b>	<b>Recommended Contribution /(Use)</b>	<b>Estimated June 30, 2009 Balance</b>
<b>General Purpose Reserve</b>	<b>57,217,492</b>	<b>3,715,725</b>	<b>60,933,217</b>
<u><b>Specific Purpose Reserves</b></u>			
Future Space Needs	39,250,000	20,000,000	59,250,000
Retirement	38,600,000	7,900,000	46,500,000
Medical Center Debt Service	32,074,905	0	32,074,905
Jail Expansion	21,500,000	7,000,000	28,500,000
Juvenile Maximum Security	13,941,206	4,000,000	17,941,206
Teeter Reserve	17,747,201	0	17,747,201
Moonridge Zoo	4,750,000	1,000,000	5,750,000
Capital Projects	4,000,000	0	4,000,000
Insurance	3,000,000	0	3,000,000
Business Process Improvement	2,112,000	0	2,112,000
Restitution	1,865,025	0	1,865,025
Electronic Voting	370,000	0	370,000
Justice Facilities	119,316	0	119,316
<b>Total Specific Purpose</b>	<b>179,329,653</b>	<b>39,900,000</b>	<b>219,229,653</b>
<b>Total Reserves</b>	<b>236,547,145</b>	<b>43,615,725</b>	<b>280,162,870</b>

Based on the reserve policy established by the County that states a reserve is maintained at a 10% level of locally funded appropriation, the mandatory 2008-09 contribution is \$3.7 million, as listed above. This contribution is required to bring the general purpose reserve balance to the required target level of \$60.9 million.

The total specific purpose reserves has an increase of \$39.9 million and is composed of the following: 1) placing a total of \$38.9 million of the unspent ongoing set asides for future space needs, retirement, jail expansion, and juvenile maximum security (discussed in more detail below) in the same purpose reserve, and 2) placing \$1.0 million to the Moonridge Zoo Reserve.

**54**



**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 11 OF 12**

**54****ONGOING SET ASIDES**

As seen by the total reserves amount above, the county has set aside a considerable amount of one-time money that can assist the County temporarily for unforeseen increases in expenditure or reductions in revenues. However, prior to 2004-05 there had never been any money set aside to permanently address future foreseen increases in ongoing expenditures. In 2008-09, the County's prudent financing plan calls for set asides of ongoing revenue sources to finance future ongoing expenditures in four different areas: future space needs, retirement, jail expansion, and juvenile maximum security.

**FUTURE SPACE NEEDS ONGOING SET ASIDE**

Beginning in 2006-07, the Board has set aside \$20.0 million to address future space needs based on a building analysis completed by staff. The space needs of the county continue to grow based on expansion of the area and the programs that service the county's growing population. This set aside is continued for 2008-09.

**RETIREMENT ONGOING SET ASIDE**

In the past, the County has seen significant retirement cost increases and predicts additional future increases based on unfunded liabilities that have occurred primarily as a result of lower than expected market returns and increased retirement costs. The Board has set aside \$7.9 million in ongoing revenue sources to assist in financing these cost increases at a future date. The financing plan continues this practice.

**JAIL EXPANSION ONGOING SET ASIDE**

The Board has set aside \$7.0 million for increased jail space due to the growing inmate population. In 2008-09, this set aside is the component of the financing plan.

**JUVENILE MAXIMUM SECURITY ONGOING SET ASIDE**

Beginning in 2007-08, the Board has set aside \$4.0 million for a new juvenile hall. This annual set aside continued in 2008-09.

**54**

**BOARD OF SUPERVISORS  
POLICY DIRECTION ON 2008-09 BUDGET TARGETS  
MARCH 18, 2008  
PAGE 12 OF 12**

**54****CONCLUSION**

This report has identified \$26.5 million in ongoing financing available and \$29.8 million in one-time financing available for 2008-09. This report also recommends using \$11.2 million in ongoing financing to fund increased costs to maintain current services and \$12.7 million in one-time financing primarily to adhere to County policy. After financing these increased costs, the county is projected to have available discretionary ongoing revenues of \$15.3 million and available discretionary one-time revenues of \$17.1 million.

**SUMMARY OF 2008-09 FINANCING PLAN**

	(In Millions)	
	Ongoing	One-time
Financing available	\$ 26.5	\$ 29.8
Cost to Maintain Current Services	(11.2)	(12.7)
2008-09 Unallocated	\$ 15.3	\$ 17.1

The above table lists unallocated financing of \$15.3 million ongoing and \$17.1 million one-time. As mentioned previously in this item, there are several considerable and probable issues that are not addressed in this financing plan and as such, the County Administrative Office is recommending that the ongoing unallocated sources be left in tact pending finalization of the following: the agreements with the various representation units, the agreement with exempt group, and the State and Federal Budgets. Based on the uncertainty of these issues and of the economy in general, it is prudent that the County continue to safeguard its financial position.

This office will continue to refine our estimates of ongoing and one-time revenues available for next fiscal year, continue to account for other mid-year board actions that affect this plan and any other pending costs the County must face in 2008-09, and continue to monitor the state and federal budget process as well as the other County needs which are not addressed in the plan.

A revised financing plan will be distributed to the Board of Supervisors with the submittal of the proposed budget. Additionally, the Board will continue to receive updates on the County needs so that these areas may be given consideration during the annual budget process.

**REVIEWED AND APPROVED BY OTHERS:** This item has been reviewed by County Counsel (Rex Hinesley, Chief Assistant County Counsel, 387-5480) on March 5, 2008.

**SUPERVISORIAL DISTRICT(S):** All

**PRESENTER:** Dean Arabatzis, Assistant County Administrative Officer (387-5412)

**54**





# 2008-09 Budget Financing Plan

March 18, 2008





# Financing Available for 2008-09

	(In Millions)	
	Ongoing	One-time
Beginning Financial Position	2.3	
New Ongoing Discretionary Sources (6%)	37.2	
Prop 172 Revenue Adjustment	(13.0)	
Estimated Discretionary One-Time Sources		29.8
<b>Total Financing Available</b>	<b>26.5</b>	<b>29.8</b>





# 2008-09 Ongoing Discretionary Sources



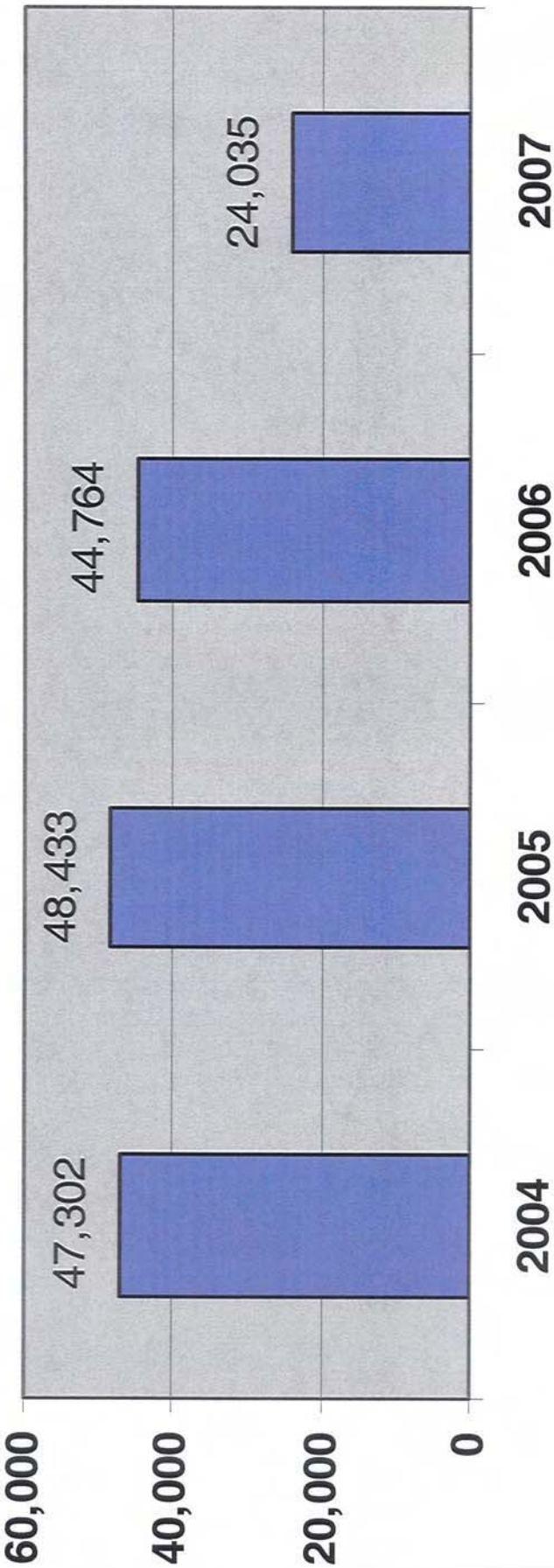
(In Millions)

	2007-08	2008-09	Difference
Property Related Revenue (Assumes 6% A V Growth)	456.4	490.0	33.6
Interest	31.0	33.0	2.0
COWCAP	25.2	28.0	2.8
Sales and Other Taxes	25.6	26.7	1.1
Property Tax Administration	13.8	17.8	4.0
Recording Fees	8.6	5.2	(3.4)
Other	11.5	8.6	(2.9)
<b>Discretionary Revenue*</b>	<b>572.1</b>	<b>609.3</b>	<b>37.2</b>
Operating Transfers In	19.1	19.1	-
<b>Total Ongoing Discretionary Sources</b>	<b>591.2</b>	<b>628.4</b>	<b>37.2</b>

\*Used to calculate 10% General Purpose Reserve



# County of San Bernardino New and Existing Annual Home Sales



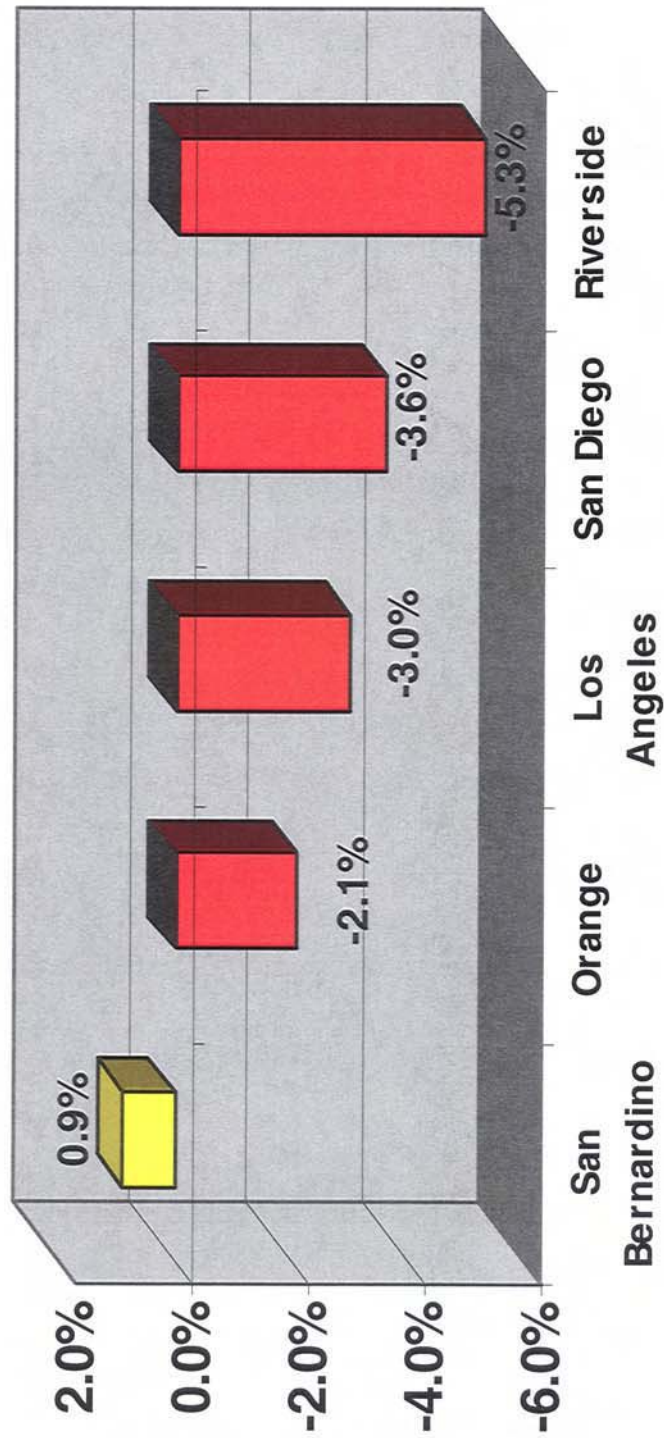
Source: Monthly DataQuick Reports

Note: Dataquick 2006 numbers restated by Dataquick to reflect methodology change.





## Comparison of Counties - Third Quarter 2007 Sales Tax Percent Change



Source: The HdL Companies

Note: Percent change as compared to 3rd Quarter 2006 Sales Tax.



# Estimated One-time Money for 2008-09



(In Millions)

	One-time
Unspent Mandated Contingencies Per County Policy	8.6
Unspent Available Contingencies in 2007-08	4.0
Departmental Operation Savings in 2007-08	11.2
Prop 172 Revenue Impact in 2007-08	(17.5)
Additional Property Tax and Other Revenue in 2007-08	23.5
<b>Total Estimated One-Time Money</b>	<b>29.8</b>





# Additional Ongoing Costs to Maintain Current Services



	(In Millions)
Approved MOU Increases (Safety and Nurses Only)	6.4
County Staffing Needs for 1.5 New Judgeships in 2007-08	1.9
Retirement	1.2
Central Computer	0.8
Utilities	0.5
California Children's Services	0.4
Dental Care for Inmates	0.2
Human Resources Rate Adjustments	(0.2)
<b>Total Ongoing Costs</b>	<b>11.2</b>

NOTE: Inflation is not financed in 2008-09 due to outstanding financing issues.



# Additional One-time Costs to Maintain Current Services



	(In Millions)
Registrar of Voters	1.3
Contribution to Moonridge Zoo Reserve	1.0
Contribution to Contingencies per Board Policy	6.7
Contribution to General Purpose Reserve per Board Policy (\$61 M)	3.7
<b>Total One-time Costs</b>	<b>12.7</b>





# Summary of 2008-09 Financing Plan



	(In Millions)	
	Ongoing	One-time
Financing Available	26.5	29.8
Cost to Maintain Current Services	(11.2)	(12.7)
2008-09 Unallocated	15.3	17.1





# Outstanding Financing Issues

---

- MOU Negotiations (excluding Safety and Nurses)
- County Needs
- State and Federal Budget Impacts







# **Current Five Year Forecast of General Fund Operations Assumes 6% Assessed Valuation Growth in 2008-09, 3% in 2009-10 and 2010-11, and 5% Thereafter**

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Beginning Financing Available	\$ 2.3	\$ (4.4)	\$ (20.4)	\$ (41.8)	\$ (75.5)
<u>Sources (Needs)</u>					
Revenue Growth:					
Property Related	33.6	13.0	13.4	23.0	24.2
Prop 172	(13.0)	7.7	8.1	8.5	8.9
Other Revenue	3.6	2.2	2.8	3.5	2.3
Increase in Costs:					
Salaries & Benefits	(22.3)	(24.6)	(26.1)	(27.0)	(28.1)
Retirement Increases	(5.0)	(8.6)	(7.5)	(8.9)	(8.0)
Adult Detention Center Staffing	-	-	(6.3)	(26.8)	-
New Judgeships Staffing	(1.9)	-	-	-	-
Other Costs	(1.7)	(5.7)	(5.8)	(6.0)	(5.9)
Ending Financing Available	\$ (4.4)	\$ (20.4)	\$ (41.8)	\$ (75.5)	\$ (82.1)

Financing Plan

Page 25 of 27

## **CUMULATIVE FORECAST IF NO MITIGATION IS PERFORMED**

NOTE: 1% Assessed Valuation change is equivalent to \$4 million.



# County Reserves



	2008-09		Estimated 30-Jun-09 Balance
	Estimated 30-Jun-08 Balance	Estimated Contributions Uses	
<b>General Purpose Reserve</b>	57,217,492	3,715,725	60,933,217
<b>Specific Purpose Reserves</b>			
Future Space Needs Reserve	39,250,000	20,000,000	59,250,000
Retirement Reserve	38,600,000	7,900,000	46,500,000
Medical Center Debt Service	32,074,905		32,074,905
Jail Expansion Reserve	21,500,000	7,000,000	28,500,000
Juvenile Maximum Security	13,941,206	4,000,000	17,941,206
Teeter Reserve	17,747,201		17,747,201
Moonridge Zoo Reserve	4,750,000	1,000,000	5,750,000
Capital Projects Reserve	4,000,000		4,000,000
Insurance Reserve	3,000,000		3,000,000
Business Process Improv Reserve	2,112,000		2,112,000
Restitution Reserve	1,865,025		1,865,025
Electronic Voting Reserve	370,000		370,000
Justice Facilities Reserve	119,316		119,316
<b>Total Specific Purpose</b>	<b>179,329,653</b>	<b>39,900,000</b>	<b>219,229,653</b>
<b>Total Reserves</b>	<b>236,547,145</b>	<b>43,615,725</b>	<b>280,162,870</b>





# Incremental Revenue from 2008-09 Proposed Fees



	(In Millions)
Auditor/Controller-Recorder	0.8
County Counsel	0.6
Human Resources	0.1
Information Services	0.1
Public Health	1.3
Public Works - Solid Waste Management	0.7
Regional Parks	0.2
Registrar of Voters	0.1
Transportation	0.1
<b>Total Incremental Revenue</b>	<b>4.0</b>